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City of Berkeley

Berkeley, California

Single Audit Reports

*For the year ended June 30, 2008
(Reissued)*

C&L
Caporicci & Larson
Certified Public Accountants

City of Berkeley
Single Audit Reports

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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

To the Honorable Mayor and Members of the City Council
of the City of Berkeley
Berkeley, California

We have audited the financial statements of the City of Berkeley (the City) as of and for the year ended June 30, 2008, and have issued our report thereon dated October 30, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Other auditors audited the financial statements of the Berkeley Housing Authority, a discretely presented component unit of the City, as described in our report on the City's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting as a basis for designing our audit procedures for the purpose of expressing our opinion on the City's financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

A *control deficiency* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis.

A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the City's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the City's financial statements that is more than inconsequential will not be prevented or detected by the City's internal control.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the City's internal control.

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To the Honorable Mayor and Members of the City Council
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Berkeley, California
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Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, we did identify some deficiencies in internal control over financial reporting that we consider to be significant deficiencies, as defined above. We have reported these deficiencies to management of the City in a separate letter dated October 30, 2008. These deficiencies are also reported in Part B of the accompanying schedule of findings and questioned costs.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The result of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management, the City Council, others within the City, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

Capricci & Carson

Oakland, California
October 30, 2008

**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE
TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

To the Honorable Mayor and Members of the City Council
of the City of Berkeley
Berkeley, California

Compliance

We have audited the compliance of the City of Berkeley (the City) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2008. The City's major federal programs are identified in the summary of audit results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

The City's basic financial statements include the operations of the Berkeley Housing Authority (the Authority), which expended \$24,803,441 in federal awards that is not included in the schedule during the year ended June 30, 2008. Our audit, described below, did not include the operations of the Authority because the Authority engaged other auditors to perform an audit in accordance with OMB Circular A-133.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States; the standards applicable to financial audits contained in *Government Audit Standards* issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the City's compliance with those requirements.

In our opinion, the City complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2008. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in Part C of the accompanying schedule of findings and questioned costs as items Finding 08-1 through Finding 08-3.

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To the Honorable Mayor and Members of the City Council
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Internal Control over Compliance

The management of the City is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs.

In planning and performing our audit, we considered the City's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

A *control deficiency* in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis.

A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the City's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the City's internal control.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the City's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be material weaknesses. However, we did identify some deficiencies in internal control over compliance that we consider to be significant deficiencies, as defined above. These deficiencies are reported in Part C of the accompanying schedule of findings and questioned costs as items Finding 08-1 and Finding 08-3.

Schedule of Expenditures of Federal Awards

We have audited the basic financial statements of the City as of and for the year ended June 30, 2008, and have issued our report thereon dated October 30, 2008. Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards and the current year's information on the Supplemental Schedules of Revenues and Expenditures prepared by the City are presented for purposes of additional analysis as required by OMB Circular A-133 and the State Department of Community Services and Development and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

To the Honorable Mayor and Members of the City Council
of the City of Berkeley
Berkeley, California
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The prior years' information on the Supplemental Schedules of Revenues and Expenditures was audited by other auditors, and in their opinion that information was fairly stated, in all material respects, in relation to the prior years' basic financial statements taken as a whole.

As discussed in Note 3 to the Schedule of Expenditures of Federal Awards, after examining additional audit documents provided by the City, we revised the major federal award program audit finding 08-1 in Part C of the Schedule of Findings and Questioned Costs, and the management response has been revised accordingly. As a result, the City's Single Audit Reports has been reissued to reflect the revisions.

This report is intended solely for the information and use of management, the City Council, others within the City, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

Capricci & Carson

Oakland, California
October 30, 2008 except for Note 3 Reissuing of the Single Audit Reports, and the Finding 08-1 in Part C of the Schedule of Findings and Questioned Costs, as to which the date is March 25, 2009

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City of Berkeley
Single Audit Reports
Schedule of Expenditures of Federal Awards
For the year ended June 30, 2008

Program Name	Grantor/ Pass-Through Entity Grant Number	Catalog of Federal Domestic Assistance Number	Program Expenditures
<u>Federal Awards</u>			
U.S. Department of Agriculture			
Pass-through State Department of Health Services:			
Special Supplemental Nutrition Program for Women, Infants and Children	05-45743	10.557 *	\$ 525,308
Pass-through State Department of Education:			
Summer Food Service Program for Children	1-8010-0V	10.559	90,818
Total U.S. Department of Agriculture			616,126
U.S. Department of Housing and Urban Development:			
Direct Programs:			
Community Development Block Grant	B-06-MC-06-0008	14.218 *	1,861,910
Community Development Block Grant	B-07-MC-06-0008	14.218 *	2,586,831
Community Development Block Grant - Program Income		14.218 *	341,930
Emergency Shelter Grants Program	S07-MC-06-008	14.231	143,338
Shelter Plus Care Program	ALAC001	14.238	211,608
Shelter Plus Care Program	CA01C40200	14.238	202,954
Shelter Plus Care Program	CA01C602042	14.238	1,744,636
Shelter Plus Care Program	CA01C602043	14.238	94,730
Shelter Plus Care Program	CA01C602022	14.238	81,079
Home Investment in Affordable Housing	M07-MC060202	14.239	1,182,894
Brownfield's Economic Development Initiative	B-05-BD-06-0020	14.246 *	930,000
Total U.S. Department of Housing and Urban Development			9,381,910
U.S. Department of Transportation:			
Pass-through the State Department of Transportation:			
Highway Planning and Construction	MISC	20.205	2,274,905
Youth Focused Bicycle and Pedestrian Injury Prevention Program	PS0627	20.600 *	76,870
DUI Enforcement and Awareness Program	AI.0727	20.600 *	109,050
Pass-through the Regents of the University of California:			
Click It or Ticket Program for Local Law Enforcement Agencies	CT08038	20.600 *	9,783
Total U.S. Department of Transportation			2,470,608
U.S. Department of Energy:			
Pass-through State Department of Community Services and Development:			
DOE Low Income Weatherization Assistance Program	07C-1651 *	81.042	23,197
Smart Solar Program	DE-FC36-07GO17065	81.117	17,575
Total U.S. Department of Energy			40,772
U.S. Department of Commerce:			
Direct Programs:			
Business Economic Development Administration Revolving Loan Fund	07-39-02523	11.307	4,745
Sub Total Federal Expenditures			12,514,161

* Denotes as Major Program

See Notes to Schedule of Expenditures of Federal Awards.

City of Berkeley
Single Audit Reports
Schedule of Expenditures of Federal Awards, Continued
For the year ended June 30, 2008

Program Name	Grantor/ Pass-Through Entity Grant Number	Catalog of Federal Domestic Assistance Number	Program Expenditures
<u>Total Federal Expenditures from previous page</u>			<u>\$ 12,514,161</u>
U.S. Department of Health and Human Services			
Pass-Through County of Alameda Area Agency on Aging:			
Special Programs for the Aging - Title III, Part B - Supporting Service Centers	C-93-1004	93.044	37,288
Special Programs for the Aging - Title III, Part C - Nutrition Services	C-93-1004	93.045	30,242
Special Programs for the Aging - Title III, Part E - Family Caregiver	C-93-1004	93.052	30,586
Nutrition Services Incentive Program	C-94-0162	93.053	3,765
Pass-Through State Department of Health Services:			
Tuberculosis - CDCP Local Assistance		93.116	41,557
Childhood Immunization Grants	07-65276 Registry	93.268	20,752
Childhood Immunization Grants	07-65217 Action	93.268	40,977
Head Start - YMCA Early Childhood Services		93.600	10,000
Medi-Cal Targeted Case Management - Linkages	60-0712	93.778	* 880,419
Medi-Cal Targeted Case Management - Public Health	60-0712	93.778	* 639,840
Medi-Cal Targeted Case Management - MAA	60-0712	93.778	* 150,000
Child Health and Disability Prevention		93.994	* 178,291
Medi-Cal Early and Periodic Screening, Diagnosis, and Treatment		93.994	* 168,302
Health Care Program for Children in Foster Care		93.994	* 36,185
Maternal and Child Health Services Block Grant	2007-59	93.994	* 554,971
Black Infant Health Program	2007-59	93.994	* 113,506
Pass-Through California Family Planning Council:			
Family Planning Services	412-5320-71209-08	93.217	44,279
Pass-Through County of Alameda Healthcare for the Homeless Program			
Emergency Community Services for the Homeless	C-94-0162	93.224	29,896
Pass-Through State Department of Community Services and Development:			
Low-Income Low Energy Assistance	06B5351 LIHEAP	93.568	15,593
Low-Income Low Energy Assistance	07B5401 LIHEAP	93.568	70,955
Low-Income Low Energy Assistance	06B5351 WEAT	93.568	8,625
Low-Income Low Energy Assistance	07B5401 WEAT	93.568	111,593
Low-Income Low Energy Assistance	08B5451 WEAT	93.568	28,522
Petroleum Violation Escrow Account Weatherization Grant	05P-6102	93.568	16,256 #
Community Services Block Grant	06F-4701	93.569	83,882
Community Services Block Grant	08F-4901	93.569	89,895
Total U.S. Department of Health and Human Services			<u>3,436,177</u>
U.S. Department of Homeland Security			
Pass-Through State Office of Emergency Services			
Disaster Grant - 2005-2006 Winter Storm, Hurricane Katrina & Rita	FEMA-CA-DR1628	97.036	135,151
Total Expenditures of Federal Awards			<u>\$ 16,085,489</u>

Expenditures incurred in prior fiscal years.

* Denotes as Major Program.

See Notes to Schedule of Expenditures of Federal Awards.

City of Berkeley
Single Audit Reports
Notes to Schedule of Expenditures of Federal Awards
For the year ended June 30, 2008

1. REPORTING ENTITY

The financial reporting entity, as defined by GASB Codification, consists of the primary government, the City of Berkeley (City), organizations for which the primary government is financially accountable, and other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. The following are the component units of the City

- The Berkeley Redevelopment Agency
- Berkeley Housing Authority
- City of Berkeley Rent Stabilization Board
- Berkeley Joint Powers Financing Authority
- Berkeley Capital Service Corporation
- Berkeley Area Bus Authority

The Berkeley Housing Authority is audited by other auditors. Therefore, the Schedule of Expenditures of Federal Awards does not include the federal awards granted to the Berkeley Housing Authority.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

Funds received under the various grant programs have been recorded within the general, special revenue, and capital projects of the City. The City utilizes the modified accrual basis of accounting for the general, special revenue, and capital project funds. The accompanying Schedule of Expenditures of Federal Awards (Schedule) has been prepared according to each fund's required basis of accounting.

Schedule of Expenditures of Federal Awards

The accompanying Schedule presents the activity of all Federal financial assistance programs of the City, except the Berkeley Housing Authority. Federal financial assistance received directly from Federal agencies as well as Federal financial assistance passed through the State of California and other agencies are included in the Schedule. The Schedule of Expenditures of Federal Awards was prepared from only the accounts of various grant programs and, therefore, does not present the financial position or results of operations of the City.

3. REISSUING OF THE SINGLE AUDIT REPORTS

After examining additional audit documents, the auditors revised the major federal award program audit finding 08-1 in Part C of the Schedule of Findings and Questioned Costs, and the management response has been revised accordingly. As a result, the City's Single Audit Reports has been reissued to reflect the revisions.

City of Berkeley
Single Audit Reports
Schedule of Findings and Questioned Costs
For the year ended June 30, 2008

A. SUMMARY OF AUDIT RESULTS

1. The auditors' report expresses an unqualified opinion on the basic financial statements of the City of Berkeley (City).
2. Significant deficiencies relating to the audit of the financial statements are reported in Part B of this schedule.
3. No instances of noncompliance material to the basic financial statements of the City were disclosed during the audit.
4. Significant deficiencies relating to the audit of the major federal award programs are reported in Part B of this schedule.
5. The auditors' report on compliance for the major federal award programs for the City expresses an unqualified opinion.
6. Audit findings relative to the major federal award programs for the City listed below are reported in Part C of this Schedule.
7. The programs tested as major programs include:

Major Program	Expenditures
Special Supplemental Nutrition Program for Women, Infants and Children	\$ 525,308
Community Development Block Grants	4,790,671
Brownfield's Economic Development Initiative	930,000
Youth Focused Bicycle and Pedestrian Injury Prevention Program	76,870
DUI Enforcement and Awareness Program	109,050
Click It or Ticket Program for Local Law Enforcement Agencies	9,783
Medi-Cal Targeted Case Management - Linkages	880,419
Medi-Cal Targeted Case Management - Public Health	639,840
Medi-Cal Targeted Case Management - MAA	150,000
Child Health and Disability Prevention	178,291
Medi-Cal Early and Periodic Screening, Diagnosis, and Treatment	168,302
Health Care Program for Children in Foster Care	36,185
Maternal and Child Health Services Block Grant	554,971
Black Infant Health Program	113,506
Total Major Program Expenditures	\$ 9,163,196
Total Federal Expenditures	\$ 16,085,489
Percent of Total Federal Award Expenditures	56.97%

8. The threshold for distinguishing Types A and B programs was \$482,565.
9. The City was determined to be a low risk auditee.

City of Berkeley
Single Audit Reports
Schedule of Findings and Questioned Costs, Continued
For the year ended June 30, 2008

B. FINDINGS - FINANCIAL STATEMENTS AUDIT

SIGNIFICANT DEFICIENCIES

1. RESTATEMENT OF PREVIOUSLY ISSUED FINANCIAL STATEMENTS

Observation

The City has restated its previously issued financial statements to correct several accounting errors. The City's internal controls over financial reporting did not identify the misstatements in a timely manner resulting in the restatements.

The following is a summary of the restatements reported by the City.

▪ Arbitrage Rebate Liabilities	\$ 1,048,871	▪ Unamortized Premium on TRANS	\$ 152,708
▪ Sales Tax Receivables	\$ 1,423,950	▪ Deferred Revenues	\$ 1,624,015
▪ Notes Receivables	\$ 942,000	▪ Loan Payables	\$ 1,067,000
▪ Notes Payables	\$ 682,843	▪ Other liabilities	\$ 222,594
▪ Capital Assets	\$2,884,787	▪ Loan Receivables	\$35,951

Recommendation

We recommend that the City enhance its internal control over financial reporting to ensure complete and accurate financial reporting. The City can accomplish this by expanding its year-end closing procedures to ensure that all nonroutine and nonsystematic transactions were accounted for, the appropriate accounting standards were applied, and transactions were accounted for in the proper period.

In addition, improved communication between City departments will ensure that all information needed for complete and accurate financial reporting is being communicated timely to the appropriate City staff.

Management Response

Restatements of previously issued financial statements refers to the City making prior period adjustments to the fund balance or net assets of City funds, fund types or Government-wide financial statements, to correct errors or to reflect changes in Generally Accepted Accounting Principles. In the past, the prior period adjustments for the City have been immaterial, so the auditors have not commented on them in the Management Letter. For FY 2007/FY 2008, the Finance Department made it a high priority to prepare more timely and accurate financial statements for the City. As a result, Finance-Accounting staff spent a lot of time analyzing and correcting general ledger account balances that contained errors from prior years. All of the prior period adjustments listed by the auditors were identified by Finance-Accounting staff, except the sales tax receivables.

City of Berkeley
Single Audit Reports
Schedule of Findings and Questioned Costs, Continued
For the year ended June 30, 2008

B. FINDINGS - FINANCIAL STATEMENTS AUDIT, Continued

SIGNIFICANT DEFICIENCIES, Continued

1. RESTATEMENT OF PREVIOUSLY ISSUED FINANCIAL STATEMENTS, Continued

Management Response, Continued

For the FY 2008 audit, the auditors concluded that there was a significant deficiency in the City's financial reporting controls primarily because of the following four material prior period adjustments made by the City in FY 2008 (three of which were identified by Finance-Accounting staff):

- Finance-Accounting made prior period adjustments to the Government-wide financial statement totaling \$3,295,488 in governmental activities infrastructure capital assets balances and (\$410,701) for business-type activities, which were the result of errors made in the template for calculating depreciation of infrastructure assets, and for other infrastructure depreciation calculation errors;
- Finance-Accounting discovered and corrected prior years' errors totaling \$1,624,015 in the CDBG deferred revenue account balance, which were made by previous outside auditors;
- Finance-Accounting discovered and corrected the arbitrage rebate liability due to the IRS which was overstated by \$1,048,871 in prior years; and
- The auditors discovered that the Sales Tax receivable accrual on the Government -wide Statement of Net assets was understated by \$1,423,950.

We agree with the auditors that a significant deficiency in financial reporting controls existed. However, we would argue that the weakness existed during the years the errors were made and went undetected, not in the current year when City staff identified and corrected the errors.

2. REVIEW OF JOURNAL ENTRIES

Observation

During the audit, we noted that the City does not have a formal written policy regarding the reviews, and approval process of journal entries by the individual departments and the Accounting Division. As a result, we noted that some departments perform an independent review of all journal entries prepared, but some departments do not, and journal entries sent to the Accounting Division do not always have supporting documents attached.

Recommendation

We recommend that the City develop a formal written policy for the review and approval of journal entries. The policy should document the process required to be followed by each department to review and approve journal entries. The City should ensure that the process designed for each department will improve accuracy and ensure proper authorization of the journal entries.

City of Berkeley
Single Audit Reports
Schedule of Findings and Questioned Costs, Continued
For the year ended June 30, 2008

B. FINDINGS - FINANCIAL STATEMENTS AUDIT, Continued

SIGNIFICANT DEFICIENCIES, Continued

2. REVIEW OF JOURNAL ENTRIES, Continued

Management Response

We agree with the finding and recommendation, and will develop an Administrative Regulation (AR) regarding the submission, review and approval process for journal entries. In addition, the City will provide training to various departments to implement the City policy on review and approval of journal entries.

3. CAPITAL ASSETS

Observation

The City does not post capital assets transactions into the capital assets module on a timely basis. Capital assets are posted after the end of the year and the start of the audit. The capital assets schedules provided to the auditors were not reviewed by someone other than the preparer and as a result, several misstatements were discovered in the schedules, such as some project progress payments were capitalized as depreciable assets even though the projects were not completed as of the fiscal year end, and some depreciable assets still have current values although they should be fully depreciated years ago.

Recommendation

We recommend that the City develop and implement procedures to record capital assets transactions on a timely basis, and perform adequate review of capital assets information to ensure that all capital assets transactions are properly accounted for.

Management Response

The auditors failed to note that all capital assets expenditures are recorded in the following expenditure element/object codes at the time the purchases are made, in order to maintain accounting control, pending the preparation of the City's CAFR:

Account #	Capital Assets Description
7010	Land
7020	Building
7030	Improvements Other Than Buildings
7041	Machinery and Equipment
7042	Vehicles
7043	Furniture and Fixtures
7044	Computers and Printers
7045	Miscellaneous Equipment
6510-6580	Infrastructure Capital Assets

City of Berkeley
Single Audit Reports
Schedule of Findings and Questioned Costs, Continued
For the year ended June 30, 2008

B. FINDINGS - FINANCIAL STATEMENTS AUDIT, Continued

SIGNIFICANT DEFICIENCIES, Continued

3. CAPITAL ASSETS, Continued

Management Response, Continued

The auditors' concern is that the accrual entries to capitalize the assets in the general ledger (i.e., record them as assets on the Statement of Net assets) and to record the appropriate depreciation expense calculations and entries was not done until after the fiscal year ends. This has not been done until year-end in the past because the fixed assets software used by the City only allows the options of calculating depreciation expense on a monthly, semi-annual or annual basis, and the option must be selected by July 1. The monthly option didn't allow staff sufficient time to make the calculations and make timely closes of the accounting period each month. As a result, City Finance staff selected the annual option since the City prepares the Comprehensive Annual Financial Report (CAFR) annually. However, we agree with the auditors that it should be done more timely, and will select the semi-annual option starting with FY 2010.

We agree with the finding that the capital assets schedules provided to the auditors for FY 2008 were not reviewed by someone other than the preparer and as a result, several misstatements were discovered in the schedules. However, we would point out that the City for many years has had a practice of having these schedules reviewed by the Finance Director/Deputy Finance Director, Accounting Manager and Senior Accountants prior to submitting them to the auditors. It didn't happen this year due to a delay caused by a tragedy in the family of the person responsible for preparing the schedules. We would also point out that the errors discovered in the schedules were not material and no audit adjustments were proposed.

Finance management is in the process of getting other staff cross-trained on the fixed assets module and the Accounting Technician has already started the preparatory work for FY 2009. As a result, the capital assets schedules will always be reviewed and approved prior to submission to the auditors.

4. SINGLE AUDIT

Observation

During the audit, we noted that some personnel costs of the Department of Health and Human Services charged to the following federal programs were not properly supported by personnel activity reports or time studies, as required by the funding agreements and the Office of Management and Budget Circular No. A-87 (OMB A-87).

- Child Health and Disability Prevention Grant: the direct labor amounts charged to the grant were not properly supported by personnel activity reports or functional timecards. Instead, the City used budgetary information to allocate payroll costs to the grant.
- Special Supplementary Nutrition Program for Women, Infants and Children: For 12 out of 15 personnel expenditures items selected, personnel costs were not supported by functional timecards as their timecards did not have any activity/function codes.

City of Berkeley
Single Audit Reports
Schedule of Findings and Questioned Costs, Continued
For the year ended June 30, 2008

B. FINDINGS - FINANCIAL STATEMENTS AUDIT, Continued

SIGNIFICANT DEFICIENCIES, Continued

4. SINGLE AUDIT, Continued

Recommendation

We recommend that the City implement procedures to ensure proper allocation of actual personnel cost to the various grant programs in accordance with the funding agreements and the OMB A-87.

Management Response

We agree. For the Child and Health Disability Prevention Grant audited activities, staff explained during the audit that while labor distribution in the financial system establishes the budget for payroll charges, the actual invoiced amounts for this program are based on the time studies prepared by program staff. If the time study data is out of alignment with the budgeted labor distribution by a material amount, payroll system adjustments are made to correct any misalignment. For the Special Supplementary Nutrition Program for Women, Infants, and Children audited activities, we will begin conducting time studies for this program within six months of the beginning of the City's fiscal year (July 2009) for data developed to bill for the second quarter of the federal fiscal year (beginning October 1, 2009).

5. COMPUTER CONTROL

Observation

There is lack of segregation of duties in the Information Technology Division: Programmers have the ability to modify programs, and also have access to live data files. This increases the risk of making unauthorized changes to financial systems or live data files.

Recommendation

We recommend that the City restrict programmers from access to live data files.

Management Response

We agree. The City will restrict programmers from access to live data files. The Department of Information Technology has implemented change management software that tracks changes made to our core financial modules by City programmers. The City's Business Applications Manager is the only staff member who can promote programming from the "test" to the "production" environment. Achieving the same separation of duties between programmers with respect to "test" versus "live" data would require additional staffing, primarily due to the architecture of the City's core financial system and the level of support needed by City departments. A more feasible mitigation strategy, given staffing limitations, would be to provide compensating controls. For example, the Department of Information Technology could provide an expanded set of regular quality control reports to be reviewed by non-programmers in operational departments.

City of Berkeley
Single Audit Reports
Schedule of Findings and Questioned Costs, Continued
For the year ended June 30, 2008

C. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARD PROGRAM AUDIT

Finding 08-1	U.S. Department of Health and Human Services, Child Health and Disability Prevention Grant (CFDA Number 93.994) - Allowable Costs/Cost Principles Administered by the City's Department of Health and Human Services.
Criteria:	According to the grant agreement and the Office of Management and Budget Circular A-87, personnel costs should be supported by time studies or personnel activities reports.
Condition:	The City used budgetary information to allocate personnel costs and invoice the grant authority. The City, on a monthly basis, reviews the personnel activity reports used by the employees working on the program and compares them to the budgetary information to determine if any adjustments are necessary. However, after testing the personnel activity reports for some selected months, we noted that all months tested had differences between the personnel activity reports and the budgetary information, but no adjustments were made to correct the differences before invoicing the grant authority. We also noted that the City used the budgetary information for the entire fiscal year and no adjustments to the budgetary information were recorded during the entire fiscal year.
Cause:	The City did not follow its policy of comparing the budgetary information to the personnel activity reports to make the necessary adjustments before billing the grant authority.
Questioned Costs:	We were not able to determine the amount of questioned costs because it was not practical to test all personnel activity reports for the entire fiscal year to determine if there are any additional differences between the personnel activity reports and the budgetary information invoiced to the grant authority.
Context and Effect:	Charging the actual personnel costs based on personnel activity reports to the federal grants instead of budgetary information would ensure that the City is in compliance with the grant agreement and the Office of Management and Budget Circular A-87.
Recommendation:	We recommend that the City use actual amounts supported by personnel activity reports and not budgetary information to charge personnel costs to the federal grants. If the City wishes to continue its existing practices, then monthly or quarterly adjustments are needed to adjust the budgetary information to the actual amounts based on personnel activity reports regardless of the significance of the adjustments.
Management Response:	We agree. Staff explained during the audit that while labor distribution in the financial system establishes the budget for payroll charges, the actual invoiced amounts for this program are based on the time studies prepared by program staff. If the time study data is out of alignment with the budgeted labor distribution, payroll system adjustments will be made to correct the misalignment.

City of Berkeley
Single Audit Reports
Schedule of Findings and Questioned Costs, Continued
For the year ended June 30, 2008

C. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARD PROGRAM AUDIT,
Continued

Finding 08-2	U.S. Department of Health and Human Services, Maternal and Child Health Block Grant (CFDA Number 93.994) - Allowable Costs/Cost Principles Administered by the City's Department of Health and Human Services.
Criteria:	The hours reported on the time studies should reflect the actual hours an employee worked for the grant program.
Condition:	Out of ten employees selected for testing, we noted that for two employees the hours reported on the time studies for the quarter ended June 30, 2008 did not agree to the payroll records.
Cause:	Some employees are not aware of the reporting requirements for time studies, and the time studies are not reviewed for possible errors and mistakes.
Questioned Costs:	The amount for questioned costs is determined to be insignificant.
Context and Effect:	Reporting actual hours on the time studies would ensure that the personnel costs are properly allocated to each grant.
Recommendation:	We recommend that the City provide adequate trainings to employees on time studies, and review the time studies to ensure hours reported are accurate.
Management Response:	We agree. Two non-exempt program staff entered their hours incorrectly; in one case, by slightly overstating their time spent working on program activities for a tested period; in the other case, by slightly understating their time in a tested period. Staff will continue to train new program staff and provide training as needed to existing staff to ensure that they understand how to correctly complete their time studies. To find and correct any errors in the time studies prior to each quarterly billing, staff will continue to compare time cards submitted for payroll with the completed time studies.

City of Berkeley
Single Audit Reports
Schedule of Findings and Questioned Costs, Continued
For the year ended June 30, 2008

C. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARD PROGRAM AUDIT,
Continued

Finding 08-3	U.S. Department of Agriculture, Special Supplementary Nutrition Program for Women, Infants and Children (Program) (CFDA Number 10.557) - Allowable Costs/Cost Principles Administered by the City's Department of Health and Human Services.
Criteria:	According to the grant agreement and the Office of Management and Budget Circular A-87, personnel costs should be supported by time studies or personnel activities reports/functional timecards.
Condition:	The City chooses to use functional timecards to support personnel costs charged to the program. However, during the performance of the audit, we noted that for 12 out of 15 personnel expenditures items selected, personnel costs were not supported by functional timecards as their timecards did not have any activity/function codes.
Cause:	Some employees forgot to write activity/function codes on the timecards, and the employees who work full time for the grant are not required by the City to write activity/function codes.
Questioned Costs:	Based on the testing results, we estimated that 80% of personnel costs were not supported by functional timecards, which amounted to be \$ 376,763.
Context and Effect:	Consistently using functional timecards by all employees charging time to the grant would ensure that the grant is being charged with the actual amount for direct labors.
Recommendation:	We recommend that the City use functional timecards by all employees charging time to the grant to support its personnel expenditures.
Management Response:	We agree. We will begin conducting time studies for this program within six months of the beginning of the City's fiscal year (July 2009) for data developed to bill for the second quarter of the federal fiscal year (beginning October 1, 2009).

City of Berkeley
Single Audit Reports
Schedule of Findings and Questioned Costs, Continued
For the year ended June 30, 2008

D. PRIOR YEAR FINDINGS AND QUESTIONED COSTS

There were no prior year findings and questioned costs.

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SUPPLEMENTAL SCHEDULES

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City of Berkeley
Community Action Agency
Supplemental Statement of Revenue and Expenditures
CSBG Contract 06F-4701 (CFDA # 93.569)
For the Period January 1, 2007 through December 31, 2007
Grand Award Thru December 31, 2007

	January 1, 2007 through June 30, 2007	July 1, 2007 through December 31, 2007	Total Fiscal Year 2008	Total Reported Rev./Exp. Contract -To-Date	Total Budget
REVENUE					
Grant Revenue	\$ 46,285	\$ 127,271	\$ 173,556	\$ 347,112	\$ 347,112
Total revenue	<u>\$ 46,285</u>	<u>\$ 127,271</u>	<u>\$ 173,556</u>	<u>\$ 347,112</u>	<u>\$ 347,112</u>
EXPENDITURES					
Non-personnel Costs					
Subcontractors	\$ 89,674	\$ 83,882	\$ 173,556	\$ 347,112	\$ 347,112
Total expenditures	<u>\$ 89,674</u>	<u>\$ 83,882</u>	<u>\$ 173,556</u>	<u>\$ 347,112</u>	<u>\$ 347,112</u>
Revenue over (under) expenditures	<u>\$ (43,389)</u>	<u>\$ 43,389</u>	<u>\$ -</u>	<u>\$ -</u>	

City of Berkeley
Community Action Agency
Supplemental Statement of Revenue and Expenditures
CSBG Contract 08F-4901 (CFDA # 93.569)
For the Period January 1, 2008 through June 30, 2008
Grand Award Thru December 31, 2009

	January 1, 2008 through June 30, 2008	Total Fiscal Year 2008	Total Reported Rev./Exp. Contract -To-Date	Total Budget
REVENUE				
Grant Revenue	\$ 60,763	\$ 60,763	\$ 60,763	\$ 486,108
Total revenue	<u>\$ 60,763</u>	<u>\$ 60,763</u>	<u>\$ 60,763</u>	<u>\$ 486,108</u>
EXPENDITURES				
Personnel Costs				
Salaries & Wages	\$ 165	\$ 165	\$ 165	\$ 90,257
Fringe Benefits	56	56	56	48,739
Sub-total Personnel Costs	<u>221</u>	<u>221</u>	<u>221</u>	<u>138,996</u>
Non-personnel Costs				
Subcontractors	<u>89,674</u>	<u>89,674</u>	<u>89,674</u>	<u>48,739</u>
Total expenditures	<u>\$ 89,895</u>	<u>\$ 89,895</u>	<u>\$ 89,895</u>	<u>\$ 187,735</u>
Revenue over (under) expenditures	<u>\$ (29,132)</u>	<u>\$ (29,132)</u>	<u>\$ (29,132)</u>	

* The contract will continue to next fiscal year

City of Berkeley
Supplemental Statement of Revenue and Expenditures
Contract 07C-1651 (CFDA # 81.042)
For the Period July 1, 2007 through April 30, 2008
Contract Term: July 1, 2007 to April 30, 2008
Project #XX08C5 & XX08C6

	July 1, 2007 through April 30, 2008	Total Fiscal Year 2008	Total Reported Rev./Exp. Contract -To-Date	Total Budget
REVENUE				
Grant Revenue	\$ 23,197	\$ 23,197	\$ 23,197	\$ 23,197
Total revenue	<u>\$ 23,197</u>	<u>\$ 23,197</u>	<u>\$ 23,197</u>	<u>\$ 23,197</u>
EXPENDITURES				
Administration (Project XX08C5)				
Administration costs	\$ 1,162	\$ 1,162	\$ 1,162	\$ 1,130
Total Administration Expenditures	<u>1,162</u>	<u>1,162</u>	<u>1,162</u>	<u>1,130</u>
Program (Project XX08C6)				
Program Costs:				
Liability Insurance	2,828	2,828	2,828	2,500
Health and Safety	2,539	2,539	2,539	1,648
Training & Technical Assistance	574	574	574	574
Program Operations				
Measure	17,876	17,876	17,876	14,275
Outreach	810	810	810	900
Intake	135	135	135	100
Client Education	200	200	200	200
Workers' Compensation	1,093	1,093	1,093	1,870
Total Program Expenditures	<u>26,055</u>	<u>26,055</u>	<u>26,055</u>	<u>22,067</u>
Total expenditures	<u>\$ 27,217</u>	<u>\$ 27,217</u>	<u>\$ 27,217</u>	<u>\$ 23,197</u>
Revenue over (under) expenditures		<u>\$ (4,020)</u>	<u>\$ (4,020)</u>	

City of Berkeley
Supplemental Statement of Revenue and Expenditures
Contract 06B-5351 CSD 670 (CFDA # 93.568)
LIHEAP Assurance 16/ECIP/HEAP
For the Period January 1, 2006 through June 30, 2008
Contract Term: January 1, 2006 to June 30, 2008

	January 1, 2006 through June 30, 2006	July 1, 2006 through June 30, 2007	July 1, 2007 through June 30, 2008	Total Fiscal Year 2008	Total Reported Rev./Exp. Contract -To-Date	Amended 07/01/08 Total Budget
REVENUE						
Grant Revenue	\$ 11,316	\$ 65,823	\$ 9,482	\$ 9,482	\$ 86,621	\$ 119,636
Accrued Revenue	7,388	(5,775)	6,111	6,111	7,724	-
Total revenue	\$ 18,704	\$ 60,048	\$ 15,593	\$ 15,593	\$ 94,345	\$ 119,636
EXPENDITURES						
Assurances 16 program costs (XX06D1)						
1. Assurance 16 Activities	\$ -	\$ 20,168	\$ 8,572	\$ 8,572	\$ 28,740	\$ 39,236
Subtotal Administration Expenditures	-	20,168	8,572	8,572	28,740	39,236
Administration Costs (for Assurance 16, ECIP, & HEAP) - XX06D2 & XX06D3						
2. Intake (Eligibility Determination)	128	5,155	1,949	1,949	7,232	10,363
3. Administrative Costs	2,418	12,298	2,957	2,957	17,673	24,044
Subtotal Administration Expenditures	2,546	17,453	4,906	4,906	24,905	34,407
ECIP Program costs & households (XX06D4)						
4. Outreach	1,023	5,809	1,273	1,273	8,105	11,400
4. Furnace Repairs Material Cost	9,029	9,245	-	-	18,274	18,573
4. Worker's Compensation	-	132	-	-	132	-
Subtotal Program Expenditures	10,052	15,186	1,273	1,273	26,511	29,973
HEAP Outreach/WPO Activity Costs						
5. Outreach (5% total Heal allocation)	6,106	5,741	842	842	12,689	14,510
Energy Education Client Workshops						
6. Energy Education Client Workshops	-	1,500	-	-	1,500	1,510
Total expenditures	\$ 18,704	\$ 60,048	\$ 15,593	\$ 15,593	\$ 94,345	\$ 119,636
Revenue over (under) expenditures				\$ -	\$ -	

* The contract will continue to next fiscal year

City of Berkeley

Supplemental Statement of Revenue and Expenditures

Contract 06B-5351 CSD 680 (CFDA # 93.568)

Weatherization

For the Period January 1, 2006 through June 30, 2008

Contract Term: January 1, 2006 to December 30, 2008

	January 1, 2006 through June 30, 2006	July 1, 2006 through June 30, 2007	July 1, 2007 through June 30, 2008	Total Fiscal Year 2008	Total Reported Rev./Exp. Contract -To-Date	Amended 08/01/08 Total Budget
REVENUE						
Grant Revenue	\$ 33,831	\$ 152,898	\$ 9,470	\$ 9,470	\$ 196,199	\$ 198,227
Accrued Revenue	25,084	(21,668)	(845)	(845)	2,571	-
Total revenue	\$ 58,915	\$ 131,230	\$ 8,625	\$ 8,625	\$ 198,770	\$ 198,227
EXPENDITURES						
Administration (Project XX06D6)						
1.a Administration costs	\$ 2,277	\$ 9,531	\$ 1,730	\$ 1,730	\$ 13,538	\$ 15,855
Subtotal Administration Expenditures	2,277	9,531	1,730	1,730	13,538	15,855
Program (Project XX06D7)						
2.a Intake (eligibility Determination)	1,033	1,892	96	96	3,021	3,954
3.a Program Costs	51,182	106,915	3,752	3,752	161,849	151,830
3.b Workers' Compensation	1,575	9,591	566	566	11,732	12,750
4.a Outreach (Other Program Costs)	1,500	3,300	120	120	4,920	9,884
4.b Training (Other Program Costs)	1,349	-	2,361	2,361	3,710	3,954
Subtotal Program Expenditures	56,639	121,698	6,895	6,895	185,232	182,372
Total expenditures	\$ 58,916	\$ 131,229	\$ 8,625	\$ 8,625	\$ 198,770	\$ 198,227
Revenue over (under) expenditures				\$ -	\$ -	

* The contract will continue to next fiscal year

City of Berkeley

Supplemental Statement of Revenue and Expenditures

Contract 07B-5401 CSD 557D (CFDA # 93.568)

Weatherization

For the Period January 1, 2007 through April 30, 2008

Contract Term: January 1, 2007 to April 30, 2008

	January 1, 2007 through June 30, 2007	July 1, 2007 through April 30, 2008	Total Fiscal Year 2008	Total Reported Rev./Exp. Contract -To-Date	Amended 08/01/08 Total Budget
REVENUE					
Grant Revenue	\$ 30,875	\$ 121,166	\$ 121,166	\$ 152,041	\$ 120,183
Accrued Revenue	9,573	(9,573)	(9,573)	-	-
Total revenue	\$ 40,448	\$ 111,593	\$ 111,593	\$ 152,041	\$ 120,183
EXPENDITURES					
Administration (Project XX06D6)					
1. Administration costs	\$ 2,268	\$ 7,796	\$ 7,796	\$ 10,064	\$ 9,571
Subtotal Administration Expenditures	2,268	7,796	7,796	10,064	9,571
Program (Project XX06D7)					
2. Training	-	2,592	2,592	2,592	2,402
2. Intake (Eligibility Determination)	920	1,562	1,562	2,482	2,402
2. Direct Program Activities	33,216	90,114	90,114	123,330	93,634
2. Outreach	2,300	3,893	3,893	6,193	6,006
2. Worker Compensation	1,744	5,636	5,636	7,380	6,168
Subtotal Program Expenditures	38,180	103,797	103,797	141,977	110,612
Total expenditures	\$ 40,448	\$ 111,593	\$ 111,593	\$ 152,041	\$ 120,183
Revenue over (under) expenditures			\$ -	\$ -	

City of Berkeley
Supplemental Statement of Revenue and Expenditures
Contract 07B-5401 (CFDA # 93.568)
LIHEAP Assurance 16/ECIP/HEAP
For the Period January 1, 2007 through April 30, 2008
Contract Term: January 1, 2007 to April 30, 2008

	January 1, 2007 through June 30, 2007	July 1, 2007 through April 30, 2008	Total Fiscal Year 2008	Total Reported Rev./Exp. Contract -To-Date	Amend #1 Total Budget
REVENUE					
Grant Revenue	\$ 1,594	\$ 74,725	\$ 74,725	\$ 76,319	\$ 71,093
Accrued Revenue	3,770	(3,770)	(3,770)	-	-
Total revenue	\$ 5,364	\$ 70,955	\$ 70,955	\$ 76,319	\$ 71,093
EXPENDITURES					
Assurances 16 program costs (XX07D1)					
1.Assurance 16 Activities	\$ -	\$ 27,143	\$ 27,143	\$ 27,143	\$ 23,771
Subtotal Administration Expenditures	-	27,143	27,143	27,143	23,771
Administration Costs (for Assurance 16, ECIP, & HEAP) - XX07D2 & XX07D3					
2. Intake (Eligibility Determination)	-	6,713	6,713	6,713	6,128
2. Administrative Costs	-	15,412	15,412	15,412	14,263
Subtotal Administration Expenditures	-	22,125	22,125	22,125	20,391
ECIP Program costs & households (XX07D4)					
4.Outreach	-	-	-	-	6,566
4.Furnace Repairs Material Cost	5,364	13,087	13,087	18,451	11,601
Subtotal Program Expenditures	5,364	13,087	13,087	18,451	18,167
HEAP Outreach/WPO Activity Costs					
4.Outreach (5% total Heal allocation)	-	8,600	8,600	8,600	8,754
Total expenditures	\$ 5,364	\$ 70,955	\$ 70,955	\$ 76,319	\$ 71,083
Revenue over (under) expenditures			\$ -	\$ -	

City of Berkeley
Supplemental Statement of Revenue and Expenditures
Contract 08B-5451 CSD 557D (CFDA # 93.568)
Weatherization
For the Period January 1, 2008 through June 30, 2008
Contract Term: January 1, 2008 to December 30, 2008

	January 1, 2008 through June 30, 2008	Total Fiscal Year 2008	Total Reported Rev./Exp. Contract -To-Date	Amended 08/01/08 Total Budget
REVENUE				
Grant Revenue	\$ 28,522	\$ 28,522	\$ 28,522	\$ 133,520
Total revenue	\$ 28,522	\$ 28,522	\$ 28,522	\$ 133,520
EXPENDITURES				
Administration (Project # 08HSD6)				
1. Administration costs	\$ 412	\$ 412	\$ 412	\$ 10,627
Subtotal Administration Expenditures	412	412	412	10,627
Program (Project #08HSD7)				
2. Training	-	-	-	2,670
2. Intake (Eligibility Determination)	-	-	-	2,670
2. Direct Program Activities	28,110	28,110	28,110	99,980
2. Outreach	-	-	-	6,673
2. Worker Compensation	-	-	-	10,900
Subtotal Program Expenditures	28,110	28,110	28,110	122,893
Total expenditures	\$ 28,522	\$ 28,522	\$ 28,522	\$ 133,520
Revenue over (under) expenditures		\$ -	\$ -	

* The contract will continue to next fiscal year

City of Berkeley

Supplemental Statement of Revenue and Expenditures

Contract 05P-6102 CSD 691 (CFDA # 93.568)

PVEA Weatherization

For the Period August 1, 2005 through December 31, 2006

Contract Term: August 1, 2005 through December 31, 2006

	August 1, 2005 through June 30, 2006	July 1, 2006 through December 31, 2006	Total Reported Rev./Exp.	Total Budget
REVENUE				
Grant Revenue	\$ -	\$ 16,256	\$ 16,256	\$ 16,256
Accrued Revenue	10,085	(10,085)	-	-
Total revenue	\$ 10,085	\$ 6,171	\$ 16,256	\$ 16,256
EXPENDITURES				
Administration (Project # XX06D8)				
1.a Administration costs	\$ 385	\$ 1,091	\$ 1,476	\$ 1,300
Subtotal Administration Expenditures	385	1,091	1,476	1,300
Program (Project # XX06D9)				
3.a Intake	208	132	340	325
4.a Direct Program Activities	9,312	6,946	16,258	13,406
5.a Outreach	420	250	670	813
7.a Workers' Compensation	145	1,086	1,231	412
Subtotal Program Expenditures	10,085	8,414	18,499	14,956
Total expenditures	\$ 10,470	\$ 9,505	\$ 19,975	\$ 16,256
Revenue over (under) expenditures			\$ (3,719)	

* All expenditures incurred in prior fiscal years.